

Message Text

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43

ACTION NEA-10

INFO OCT-01 EUR-12 ISO-00 CIAE-00 DODE-00 PM-04 H-02

INR-07 L-03 NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15

USIA-06 AID-05 COME-00 EB-07 FRB-03 TRSE-00 XMB-02

OPIC-03 CIEP-01 LAB-04 SIL-01 OMB-01 STR-04 IGA-02

/102 W

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R 021722Z MAR 76

FM AMEMBASSY BONN

TO SECSTATE WASHDC 6856

INFO AMEMBASSY NEW DELHI

AMEMBASSY PARIS

AMEMBASSY OTTAWA

AMEMBASSY ISLAMABAD

AMEMBASSY LONDON

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E.O. 11652: N/A

TAGS: EAID, ETRD, PK, GW

SUBJECT: BHUTTO VISIT; FRG-PAKISTAN ECONOMIC RELATIONS

REF: BONN 3131

1. FOLLOWING UP ON EMBASSY DISCUSSION WITH FORMIN OFFICIAL (REF A), EMBOFF DISCUSSED ECONOMIC ASPECTS OF BHUTTO VISIT WITH ECON COOP MIN DESK OFFICER MORBACH AND WITH DESK OFFICER IN ECONMIN (KRIEBEL).

2. MORBACH OUTLINED GERMAN DEVELOPMENT ASSISTANCE PROGRAM TO PAKISTAN FOR THE CURRENT YEAR. HE NOTED THAT GERMAN EXPENDITURES FOR THE CURRENT PAKISTANI FISCAL YEAR CONSIST OF FUNDS THAT WERE ACTUALLY COMMITTED BY THE FRG IN 1975. THESE INCLUDE 90

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MILLION DM IN COMMODITY AND PROGRAM ASSISTANCE; 15

MILLION DM FOR THE TARBELLA DAM/INDUS RIVER PROJECT, AND 103 MILLION DM FOR DEBT RELIEF AS PART OF THE DEBT CONSORTIUM ARRANGEMENT. OF THE 90 MILLION DM IN COMMODITY AND PROGRAM ASSISTANCE, ROUGHLY 50 MILLION WAS COMMODITY AID AND 40 MILLION PROJECT ASSISTANCE. IN THE PROJECT ASSISTANCE FIELD THERE WERE THREE MAIN AREAS OF EMPHASIS: (1) POPULATION (CONDOM DISTRIBUTION); (2) INTEGRATED RURAL DEVELOPMENT IN PESHAWAR AND (3) ASSISTANCE TO SMALL INDUSTRY IN PUNJJI.

3. IN THE 1976 BUDGET THE FRG INTENDS TO PROVIDE THE SAME AMOUNT OF ASSISTANCE. HOWEVER, THE 90 MILLION IN PROGRAM AND COMMODITY AID WILL BE PROVIDED FOR THE FIRST TIME ON MSA TERMS (50 YEARS, 10 YEAR GRACE, .75 PERCENT INTEREST), THUS INCREASING THE GRANT ELEMENT OF THE AID. AT THE SAME TIME, HOWEVER, COMMODITY ASSISTANCE WILL BE REDUCED SOMEWHAT IN FAVOR OF PROJECT ASSISTANCE. PROJECT ASSISTANCE IN THE 1976 BUDGET WILL BE CONCENTRATED UPON EXISTING PROJECTS; NO NEW ONES ARE PLANNED AT THIS TIME. THE FRG CONTRIBUTION TO DEBT RESCHEDULING WILL DEPEND UPON THE OUTCOME OF THE PARIS MEETING OF THE PAKISTAN CONSORTIUM IN APRIL. MORBACH EXPECTS A GERMAN CONTRIBUTION OF AROUND 100 MILLION DM.

4. ECONMIN OFFICIAL KRIEBEL DISCUSSED BILATERAL ECONOMIC RELATIONS IN THE TRADE AND INVESTMENT SECTORS. WITH RESPECT TO TRADE, BHUTTO MADE A PLEA FOR INCREASED GERMAN IMPORTS OF PAKISTANI TEXTILES AS A MEANS OF REDUCING THE RATHER LARGE TRADE IMBALANCE BETWEEN THE TWO COUNTRIES, WHICH WAS APPROXIMATELY DM 150 MILLION IN 1975. TEXTILES, UNFORTUNATELY, IS A PARTICULARLY SENSITIVE SECTOR FOR ALL OF THE EUROPEAN COUNTRIES AND GERMANY IS SIMPLY UNABLE TO INCREASE QUOTAS FOR ANY OF ITS TRADE PARTNERS. STATE SECRETARY ROHWEDDER, IN HIS

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CONVERSATION WITH THE PAKISTANI STATE SECRETARY FROM THE TRADE MINISTRY, NAIK, INDICATED A GERMAN WILLINGNESS TO ACCEPT MORE LEATHER GOODS FROM PAKISTAN. UNTIL NOW, HOWEVER, THE QUALITY OF PAKISTANI LEATHER GOODS HAS NOT PROVED SUFFICIENTLY HIGH TO CAPTURE MUCH OF THE RELATIVELY LARGE GERMAN MARKET. ROHWEDDER REMINDED NAIK THAT BRUSSELS NOW HAS COMPETENCE IN THE TRADE FIELD BUT THAT THE FRG WOULD DO WHAT IT COULD TO IMPROVE THE PAKISTANI TRADE IMBALANCE.

5. WITH RESPECT TO THE INVESTMENT SITUATION, DESK OFFICER PAINTED A RATHER GRIM PICTURE OF THE STATE OF AFFAIRS. GERMAN INVESTMENT IN PAKISTAN NOW STANDS LIMITED OFFICIAL USE

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AT 56 MILLION DM, BUT IN THE PAST FEW YEARS THERE HAS BEEN VIRTUALLY NO NEW INVESTMENT. KRIEBEL BLAMES THE DELICATE INTERNATIONAL FINANCIAL POSITION OF PAKISTAN AND THE ABSENCE OF A LONG TERM GUARANTEE AGAINST NATIONALIZATION OF FOREIGN ENTERPRISES. BHUTTO APPARENTLY GAVE PRIVATE ASSURANCES AGAINST NATIONALIZATIONS DURING HIS TENURE AS HEAD OF STATE, BUT HE WAS UNWILLING TO MAKE A COMMITMENT OVER THE LONG RUN. KRIEBEL MADE NO MENTION OF THE RECENTLY ENACTED PAKISTANI INVESTMENT STATUTE, WHICH,

ACCORDING TO GERMAN PRESS ACCOUNTS, IS DESIGNED
TO PROVIDE GREATER SECURITY FOR FOREIGN
INVESTMENTS.

6. DEBTS. BOTH OFFICIALS SPOKE ABOUT THE
EXTREMELY CRITICAL PAKISTANI DEBT SITUATION AND THE
IMPACT THIS HAS HAD ON ECONOMIC RELATIONS WITH
PAKISTAN. IT IS VIRTUALLY IMPOSSIBLE, FOR EXAMPLE,
FOR GERMAN EXPORTERS TO OBTAIN GOVERNMENT
QUARANTEES FOR EXPORT CREDITS TO PAKISTAN. EVEN
SMALL FIRMS, WHICH OBTAINED SOME HERMES COVER IN
THE PAST, MAY HAVE TROUBLE OBTAINING THE GUARANTEES
IN THE FUTURE. ECONMIN OFFICERS APPEAR RELUCTANT
TO ADD ANY COMMERCIAL DEBT TO THE ALREADY HIGH
OFFICIAL DEBT OF THE PAKISTANIS.
HILLENBRAND

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